REVIEW OF THE EXPORT ENHANCEMENT PROGRAM

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH, AND FOREIGN AGRICULTURE

AND THE

SUBCOMMITTEE ON WHEAT, SOYBEANS, AND FEED GRAINS

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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REVIEW OF THE EXPORT ENHANCEMENT PROGRAM

WEDNESDAY, FEBRUARY 21, 1990

HOUSE OF REPRESENTATIVES; SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH, AND FOREIGN AGRICULTURE; JOINTLY WITH SUBCOMMITTEE ON WHEAT, SOYBEANS, AND FEED GRAINS; COMMITTEE ON AGRICULTURE,

Washington, DC.

The subcommittees met, pursuant to recess, at 9:35 a.m., in room 1300, Longworth House Office Building, Hon. George E. Brown, Jr. (chairman of the Subcommittee on Department Operations, Research, and Foreign Agriculture) presiding, together with Hon. Dan Glickman (chairman of the Subcommittee on Wheat, Soybeans, and Feed Grains).

Present from the Subcommittee on Department Operations, Research, and Foreign Agriculture: Representatives Brown, Stenholm, Glickman, Volkmer, Jontz, and Roberts.

Present from the Subcommittee on Wheat, Soybeans, and Feed Grains: Representatives Glickman, Johnson, English, Volkmer, Penny, Nagle, Jontz, Long, Marlenee, Stangeland, Roberts, Smith, and Schuette.

Staff present: Vernie Hubert, associate counsel; John E. Hogan, minority counsel; Francie Monaghan, clerk; William A. Stiles, Jr., Greg Frazier, Anne C. Keys, Anita R. Brown, James A. Davis, John J. Aguirre, and Cliff Humphrey.

OPENING STATEMENT OF HON. GEORGE E. BROWN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. BROWN. The subcommittee will come to order.

Today we are continuing our joint oversight of the export promotion programs of the Department. Last fall we heard from the General Accounting Office and the Inspector General about problems associated with our agriculture export promotion programs. Today we're going to hear from the Department about their reaction to these reports and to find out what steps have been taken to correct some of the problems which those reports detailed.

I feel that it is necessary to emphasize that these hearings are being conducted to strengthen our agriculture export programs and to improve their performance. They are not meant as an attack on these programs. But I know of no Government program which cannot be improved and I have long felt that the oversight process

is one of the best methods of insuring high performance standards in Government activities.

I hope that through these efforts we can find ways to improve our agricultural export promotion programs and to use this information to help guide our deliberations on the 1990 farm bill.

I now turn to my distinguished colleague Mr. Glickman from Kansas, the Chairman of the Wheat, Soybeans, and Feed Grains Subcommittee for an opening statement.

OPENING STATEMENT OF HON. DAN GLICKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. GLICKMAN. Thank you very much, George.

This morning's hearing is the fourth in less than 1 year that we have participated in to review the operations, management, and performance of the Export Enhancement Program. Before going any further, I want to acknowledge the assistance that the subcommittee has received from the GAO, the Congressional Research Service, and Office of the Inspector General of the Department of Agriculture in connection with these hearings.

In addition to continuing our oversight role with this morning's hearing, the subcommittee has a more specific purpose: To receive the comments of USDA to the last hearing the subcommittee conducted during which we received a report from the Inspector General and the General Accounting Office about specific management deficiencies in the EEP. I know that since that hearing, USDA, and particularly the Foreign Agricultural Service, has been very active in responding internally to points raised then and in the testimonies that we had heard before by the Inspector General and the General Accounting Office. I want to make sure that the Foreign Agricultural Service has the opportunity to respond on the record to that hearing and those reports, and I also want to lay out on the record the management reforms made to the program.

I know from my conversations with the Foreign Agricultural Service since that hearing that they have been acting in good faith and will respond affirmatively to these earlier reports. I will, however, as I have stated, reserve the right in the 1990 farm bill to write into the statute legal requirements for some of these management changes if appropriate. I believe the law should be explicit on some of these points, in particular, given the administration's view that it will in all likelihood support the continuation of the program past the end of the present round of multilateral trade negotiations if they fail, the administration, fail to resolve all outstanding agricultural trade issues. I think Congress would support them in that capacity.

I still have concerns, however, about the internal USDA review process prior to the time EEP initiatives are announced. I will want to explore further changes made in this end of the program, not just the bonus determination and awarding process. These hearings have had as their objective the goal of ensuring that the program is not subject to manipulation, that it is run with a firm set of criteria and standards, and while I think USDA is moving in the right direction in certain aspects of the program, I still have

questions about this aspect and I will be pursuing this issue further.

I want to emphasize also that I think EEP is a very important program to this country. I support it, and I support its continuation of it. There have been some folks who have been concerned by Congress perhaps getting involved in the oversight of this program that we have been unnecessarily impeding in the Department's process. And I disagree with that fundamentally. This is an important program which has helped to sell a lot of wheat particularly and other farm commodities overseas, and helped us meet some trade challenges which we have. I want to see it continued. In the last trade bill, I was the author of the provision expanding the program.

At the same time I want to make sure that it is run honestly, fairly and openly, given the fact that we have such huge sums of money involved in the EEP effort, particularly in terms of total amounts of grain that are sold, which are bonused by obviously smaller amounts of EEP grain.

So my goal is to make sure that we have the right standards, the right focus and the right limits to it so that we don't wake up 1 day and find out that the whole effort has been ruined by a few bad apples. If we can prevent that from happening now, it would save us a lot of aggravation and grief later on in the program.

I have been convinced that Mr. Crowder and Mr. Yeutter, since they have taken over the Department, are serious in their efforts to make sure that this program is run correctly. I am also convinced that prior to Mr. Yeutter and Mr. Crowder taking over the program wasn't run as efficiently and thoroughly as it should have been.

So our goal is to make sure that we don't have any problems. And if we don't have any problems then we can use the program a lot more effectively and efficiently. That's my goal. I assume that's USDA's goal as well. I look forward to hearing the testimony, Mr. Chairman.

Mr. BROWN. Thank you very much, Mr. Glickman.

Any prepared statements submitted by other members will be placed in the record at this point.

[The prepared statement of Mr. Roberts follows:]

The Honorable Pat Roberts

February 21, 1990

I want to commend the Chairman of the Subcommittee on Department Operations, Research, and Foreign Agriculture for holding this hearing jointly with the Subcommittee on Wheat, Soybeans, and Feed Grains.

The Export Enhancement Program has proved to be one of the most important provisions written into the 1985 Farm Bill for America's wheat farmers. The Export Enhancement Program has had a dramatic influence on the world wheat market. In the 1985/86 marketing year less than one-fifth of U.S. wheat exports went out under the Export Enhancement Program. By the 1987/88 marketing year the importance of EEP increased as nearly two-thirds of U.S. wheat exports were shipped under this program.

Most importantly, for the almost 49,000 wheat farms in Kansas, wheat prices rebounded from an average price of $2.42 per bushel in the 86/87 marketing year to $3.74 per bushel in the 88/89 marketing year. There is no doubt in the minds of my wheat farmers that the EEP has been a critical factor in supporting wheat prices against the onslaught of European productition incentives and export subsidies. In addition to favorable pricing trends, the U.S. market share of the world wheat trade has once again climbed back to the historical levels of 42%.

I am pleased to note that the Administration's 1991 budget proposal included an increase of resources for the EEP to a program level of $900 million. In addition, I likewise applaud the yeoman efforts by the Department to improve the administration and management of a very complicated program. I am certain that the earlier assertions of wide spread fraud and abuse have been greatly overstated, and that the USDA will continue to use the EEP for the benefit of America's farmers.

Mr. BROWN. Mr. Marlenee, do you have a statement?
Mr. MARLENEE. Mr. Chairman, I do have a statement.

OPENING STATEMENT OF HON. RON MARLENEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA

Mr. MARLENEE. Mr. Dickerson, welcome to the committee. We're pleased to have you here. I want to thank the Department of Agriculture for cooperating with us in providing an update on the current status and revised operating criteria for the Export Enhancement Program. I want to start out by commending USDA in general, and the Foreign Agricultural Service in particular, for the generally satisfactory way in which they have implemented the Export Enhancement Program since its inception in the 1985 Food Security Act.

As time has progressed, some of us have had questions, and some have had criticisms of various operational aspects of the program. During the past year and a half, or so, USDA has demonstrated its willingness and ability to work not only with congressional committees and its own Office of Inspector General, but with other investigations that have been ongoing to address the several areas of concern which have been raised.

Mr. Chairman, I would like to add at this point that it is relatively easy for us and other third parties, particularly those who would like to destroy the Export Enhancement Program, and outside of FAS, to find problems with the implementation and administration of the Export Enhancement Program in hindsight—and I emphasize hindsight. When Congress first mandated operation of the program in the 1985 farm bill, we purposely did not embody a long and detailed list of criteria and operating instructions in the law. This was done in an effort to maximize the latitude USDA could have in the operation of the program so the Department could respond readily and promptly to unfair, predatory tactics of foreign trading interests.

I might add at that juncture that that's exactly why we put the program in place. Now some may marvel at the fact—the Nation marvels at the fact that we adjourned the first half of the session just before Thanksgiving and came back November 20. And all of the events of Eastern Europe and the Communist bloc nations unfolded at that time, and we wonder how they did it without Congress's assistance.

I think that you are perfectly capable and able to run the Export Enhancement Program without Congress getting involved in outlining the details of that program and telling you just exactly how it should be run.

We fought long and hard just to get the then-administration to agree to any kind of EEP program. And as I recall the negotiations, we were so delighted to have them agree to fund and utilize this important effort to restore a competitive edge for American agricultural products, that we did not dwell at length on setting up criteria for its day-to-day operations.

As I view the situation, Mr. Chairman, I find that the Department has done a generally good job in accomplishing the goals we had in mind when the EEP program was first established, and that

they have shown a willingness and ability to make any midcourse corrections as needed.

It is easy for the headline hunters and the media and otherwise to seize upon isolated instances of minor importance or to criticize the Department in retrospect because FAS did not think of a particular problem in advance.

However, I do not think that the majority of this Monday morning quarterbacking is warranted, nor is it very constructive in most instances.

I commend the Department again and the Foreign Agricultural Service for their continuing effort to make the program a truly effective tool in our otherwise limited arsenal of weapons which we can employ to defend our agricultural producers against unfair trading tactics in the world marketplace.

I will send one other signal at this time. And that is the signal that we fully intend—that this member fully intends—to do everything in his power to keep the Export Enhancement Program in place and viable, and to work with you in implementing a program that keeps our competitive edge in the world market.

I thank the chairman.

Mr. BROWN. Thank you very much, Mr. Marlenee.

Do any of the other members wish to make any opening statements? The Chair expresses his hope that if they do it will be very brief.

[No response.]

Mr. BROWN. In that case, we welcome Mr. Paul Dickerson who is the General Sales Manager and Associate Administrator of the Foreign Agricultural Services, accompanied by Mr. John Reddington, the Deputy Assistant Administrator for Commodity and Marketing Programs for the Service.

You may proceed, Mr. Dickerson.

STATEMENT OF F. PAUL DICKERSON, ASSOCIATE ADMINISTRATOR AND GENERAL SALES MANAGER, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JOHN J. REDDINGTON, DEPUTY ASSISTANT ADMINISTRATOR, COMMODITY AND MARKETING PROGRAMS

Mr. DICKERSON. Thank you, Mr. Chairman.

Members of subcommittees, I am pleased to be before you to discuss the Export Enhancement Program and to answer any questions you may have concerning the program and its management.

Since I have prepared a rather lengthy statement, I will briefly summarize my remarks and ask that my complete statement be included in the record.

Mr. BROWN. Your complete statement, without objection, will appear in the record.

Thank you.

Mr. DICKERSON. In the last 10 months we have made what I believe are significant management improvements in the program which I'd like to summarize for you today.

Before I discuss the current EEP, I'd like to briefly describe the rationale behind the EEP when it was created in 1985. I'm sure you remember the agriculture environment then. Sharply lower

U.S. agricultural exports, subsidized foreign competition, high Commodity Credit Corporation stock levels and commodity program outlays, and much concern over the welfare of the farm sector.

During the period 1981 to 1985 U.S. agricultural export volume fell nearly 25 percent as a result of unfavorable macroeconomic conditions and U.S. policies that had the effect of encouraging production and export expansion in competitor countries.

Together with a reduction in loan rates, the EEP was designed to bolster U.S. export competitiveness in light of competitors' unfair trading practices by reducing the export price of selected U.S. commodities sold to buyers in targeted markets. This was to be achieved by providing U.S. exporters with CCC-owned commodities, and later commodity certificates exchangeable for commodities, thereby enabling U.S. exporters to match prices offered by subsidizing competitors.

The EEP was intended to achieve the following primary objectives: Challenge unfair trade practices that hurt U.S. exports, especially those of the European Community; encourage serious negotiations on agricultural trade under the auspices of the General Agreement on Tariffs and Trade; and to boost U.S. agricultural exports.

At the time of the program's inception, the Economic Policy Council established criteria under which the EEP would operate. Specifically, the intent was that each initiative would meet the criteria of additionality, targeting, cost effectiveness, and budget neutrality.

With that information as background, let me jump forward to 1989. After 4 years of program operation, and with a new administration, questions were raised about how well the EEP met its objectives and criteria. The Office of Management and Budget requested that USDA undertake a study to assess whether the program was meeting its objectives and criteria.

Since you were all provided with copies of the study last summer, let me simply highlight the results here.

The study concluded that the principal objectives of the EEP have largely been met. The program has challenged unfair trade practices, expanded U.S. agricultural exports and spurred trade negotiations.

The study concluded that the EEP operational criteria of targeting, addi. nality, budget neutrality and cost effectiveness have generally been met.

Another finding of the study was that program objectives and criteria needed to be clarified and more closely related so that they do not work at cross purposes.

That finding resulted in our announcement in November 1989 of new guidelines that we are using to determine the annual level of programming and to select proposed sales initiatives under the EEP.

The new guidelines are used to select the commodities and countries which will best meet the EEP's trade policy objectives and to help evaluate proposed sales initiatives based on the potential impact of trade policy negotiations, U.S. agricultural exports, other exporting nations that do not subsidize agricultural production and exports, and overall benefits of subsidies under the program.

Along with implementing these revised guidelines, we are working to improve our internal program review and approval procedures. We also have developed a less complicated interagency review process which will ensure timely decisionmaking which is consistent with program objectives and guidelines.

In addition to responding to questions about the overall philosophy and direction of the program, we also have responded to the criticisms raised by USDA's internal auditors over the day-to-day operation of the program. We have been working closely with the Department's Office of Inspector General since it initiated an audit of EEP in November 1987.

As a result of OIG recommendations, we have made some important changes to address the auditors' concerns about bonus levels, accountability, price calculations and procedures. Let me highlight the major recommendations made by the auditors and our response to them.

FAS amended EEP announcements to clarify the language of the provisions for audit of records and access to premises. We have developed written policies and procedures for all significant aspects of the EEP. In addition, on its own initiative, FAS has recently drafted proposed regulations dealing with the operation of the EEP.

We agree that bid assistance should be minimized. Communication with buyers should be limited to a discussion of market conditions and generally not touch on specifics of what price a buyer should bid.

FAS has evaluated its procedures to ensure that every possible precaution is taken to prevent acceptance of a sales price that is lower than a buyer would have offered in the absence of discussion with FAS personnel.

We review bonus levels for all commodities daily to ensure that they reflect current market conditions and realistic costs.

FAS has documented how it determines bonus levels, and periodically reevaluates incidental costs allowed in bonus calculations.

CCC now requires that all exporters supply a copy of the signed sales contract or eligible buyers' sales certification statement at the time the offer was made.

In addition, EEP announcements were amended to further clarify the definition of sales contract to include a description of the minimum sales contract requirements to clarify exactly what is required.

FAS has tightened controls to assure that bonus payments are made only for commodities specified. If any discrepancies are found between commodity specifications under the agreement and the export shipping documents, bonus payments are withheld pending resolution of the discrepancy.

Mr. Chairman, this briefly summarizes some of the actions we've taken to strengthen and streamline the Export Enhancement Program.

I'd now like to address some specific concerns which have been raised recently. Namely, overpayments for bonuses and public access to EEP activities.

An EEP bonus represents the difference between the landed cost of a U.S. commodity in the targeted country and the landed cost of our competitors. To arrive at a landed cost we evaluate various fac-

tors including the higher transportation cost to most destinations faced by U.S. exporters.

A buyer in North Africa, for example, does not consider the difference between the FOB price at the U.S. Gulf coast versus the FOB price at a French port. That buyer is only looking at his bottom line. What will that product cost him at his point of entry.

Using the landed cost to calculate our bonuses allows U.S. exporters to compete with highly subsidized products from the EC.

Without consideration for ocean transportation costs, the EEP program would become nonfunctional to most world destinations.

On the issue of public access, let me assure the committee that we at USDA take our responsibility as public servants very seriously. We work hard to ensure that appropriate information about our decisions is disseminated to the widest possible audiences.

We do not, however, open our books to either the world buyers participating in the program or the exporters who are bidding competitively against one another for a bonus. To do so would, in our judgment, flag our intentions to other subsidizing exporters and result in higher bonuses than would otherwise be necessary.

As with any new program, we have learned some of the pitfalls of program operation as we've gone along. But even though we've encountered some problems, exports have been boosted by the EEP program in combination with the depreciation of the dollar and lower loan rates.

Since the program began in 1985 we have used close to 2.7 billion dollars' worth of EEP bonuses to make over $9.8 billion in export sales. Fifty-six percent of all U.S. wheat and wheat flour exports during 1985 to 1989 were shipped under the Export Enhancement Program. In addition to wheat and barley, commodities have included flour, semolina, barley malt, sorghum, rice, poultry feed, vegetable oil, frozen poultry, dairy cattle and eggs.

All together 65 countries have been targeted for EEP sales. In 1988 we used nearly 1 billion dollars' worth of EEP bonuses to help sell 3.2 billion dollars' worth of agricultural commodities. Last year, despite drought-reduced supplies, 2.8 billion dollars' worth of U.S. agricultural commodities were exported with the aid of $338 million in export bonuses.

This year, as you know, the EEP budget is set at $566 million. The administration's EEP budget request for fiscal 1991 is $900 million.

In the final analysis, the real value of the EEP depends on its contribution to agricultural trade reform under the GATT. The current Uruguay Round of trade liberalizing negotiations will end next year. We shall then review and reassess the EEP as part of our ongoing strategy for trade reform.

Mr. Chairman, that concludes my testimony. I would be happy to answer any questions that you may have.

[The prepared statement of Mr. Dickerson appears at the conclusion of the hearing.]

Mr. BROWN. Thank you very much, Mr. Dickerson.

Mr. Glickman.

Mr. GLICKMAN. Thank you, Mr. Chairman.

First of all, Mr. Dickerson, I want to thank you for your testimony. I'd point out for the record that over the period of the last sev-

eral months the Department has made a series of profound changes and policy initiatives to regularize the EEP process, many of which were made at the direction of this subcommittee. I would just respond for a moment to my colleague from Montana. We all have as a goal the successful operation of this program. The goal is not to nit-pick. The IG came up with over $200 million of alleged improper or unaccounted for statements. And our point was to try to make sure that that didn't happen again.

Mr. Crowder, Mr. Yeutter, and yourself have acknowledged there were problems in the operation of the program. And I want to say that I think that you have begun the process to make sure that doesn't happen again.

What I don't want to leave as the impression is that we've got something that was just minor nit-picking here. There were problems in the operation of the program. And it really took your shop making sure that the proper records were kept and procedures were set up to make sure that the program can operate fully and completely. I think you're doing that now.

I wonder if you have any comment to my statement.

Mr. DICKERSON. I would agree that certainly the oversight of your committee has been well-placed and responsive to carrying out our mission in a proper way.

Overall, however, I do feel that the EEP, as I have testified, has been a very good program. It has met its goals. But I think there have been some improvements that were necessary, and that they have been done over the last 9 or 10 months.

Mr. GLICKMAN. Right. Now as I understand it, there are some proposed regulatory changes in the operation of this program that have been sent to the Office of Management and Budget for clearance. Is that correct?

Mr. DICKERSON. That's correct, sir.

Mr. GLICKMAN. And they include some of the things you talked about in your statement?

Mr. DICKERSON. Yes, they do.

Mr. GLICKMAN. They're the implementing phase of——

Mr. DICKERSON. That's correct.

Mr. GLICKMAN. When will these be cleared, and what is the holdup?

Mr. DICKERSON. I can't tell you exactly when they'll be cleared. They were submitted to OMB, as I recall, on January 29, along with an impact statement. I am told that it could take 2 to 3 weeks, it could take longer. I'm not really sure, sir. I can't answer that exactly.

Mr. GLICKMAN. So you don't know when they'll be in the Federal Register, then?

Mr. DICKERSON. I do not at this time.

Mr. GLICKMAN. Can you supply them for the record?

Mr. DICKERSON. I cannot, sir. I am instructed that until regulations are cleared by OMB that they are not to be a public document.

What I can say is that basically the guidelines that FAS was using for the Export Enhancement Program essentially are being codified and going into regulatory form. The changes that are being made I have basically addressed at this hearing. I think

you're well aware of the changes that we've made. So those changes will go along with the guidelines that we have changed into regulatory form.

Mr. GLICKMAN. So what you're saying is, there are no fundamental surprises in there.

Mr. DICKERSON. That's correct, sir.

Mr. GLICKMAN. Well, we hope we get them as quickly as possible. And we'll be in contact with OMB again. I would note it is not USDA's reluctance or dragging its feet that we haven't gotten these. They have been over at OMB. And they just, for their typical reasons, haven't finished the process yet.

I want to get into two basic areas with you. One is before going into the OIG's audit report I want to ask you a question about the process before an EEP initiative is approved. Things like who is allowed to initiate a proposed EEP initiative? Is it a private company or is it a country?

Mr. DICKERSON. Anyone.

Mr. GLICKMAN. Anyone?

Mr. DICKERSON. Any interested party, a foreign country, a buyer in a foreign country be it in the private sector, interested producer groups in this country, FAS. Any interested party.

Mr. GLICKMAN. For example, is it possible for a country to go to an exporter and say to the exporter, "Get me an EEP and you'll get my business"?

Mr. DICKERSON. No, that's not possible.

Mr. GLICKMAN. Well, it's possible. It could happen; right? It's not the way these things begin?

Mr. DICKERSON. That's not the way things would begin, no. The country would typically come to an agricultural attache, if he existed in that country, and voice his interest in participating in the program. There would be ongoing dialogue between those two entities in any case.

Ultimately that would come to FAS for review by the proper division.

Mr. GLICKMAN. But let me ask you this. Could a company go to USDA and ask them to look into an initiative for a certain country, giving that country perhaps immediate knowledge that this is under review and giving them some sort of advantage because they would have that?

Mr. DICKERSON. No, not at all. In fact, if the country or if the exporter were to ask for that there certainly is no guarantee that he's going to get the initiative in the first place.

Once the initiative is in place and operable, it would be—the tender itself and the business would take place in a competitive atmosphere. So there would be no advantage for the exporter, as such.

Mr. GLICKMAN. Do you keep a record who requests an initiative?

Mr. DICKERSON. Yes, we do

Mr. GLICKMAN. All right. Now let me get to the OIG report. Could you explain why or how the Office of Inspector General came up with $89 million in bonus overpayments? Was it because of the lack of documentation or the lack of comprehensive documentation?

Mr. DICKERSON. I think the $89 million that you're referring to is probably the estimate of OIG in terms of our evaluation of world prices. And as far as we're concerned that's a judgment call. We feel that we have professional staff entirely competent to determine what world price levels are. The OIG felt to the contrary.

The $89 million represented, I believe, the difference of an opinion between FAS and the OIG as to what the world price levels were.

Mr. GLICKMAN. But going again on how or why they came up with $89 million overpayments, you say it's a difference in perspective on how you compute world price? That's the base difference?

Mr. DICKERSON. It's a subjective analysis; that's correct.

Mr. GLICKMAN. Do you think OIG's was wrong?

Mr. DICKERSON. I do think they were wrong; correct.

Mr. GLICKMAN. The question would be then in your new proposals will you have documentation on world price determinations and bonus calculations in order to make sure that this dispute doesn't exist again?

Mr. DICKERSON. Well, we have that in internal procedures within FAS. But, again, you have to go back and you have to review the process with which FAS determines what that price is. And that comes from a number of different sources. We have procedures in place which maintain records of where that information came from and how we obtain it.

Mr. GLICKMAN. And all of that is public information?

Mr. DICKERSON. It's not actually in the guidelines, in the method in which we determine it. We determine it from market sources, we determine it from agricultural attachés who are stationed in the countries that are involved, through other contacts, consultants overseas, etc.

Mr. GLICKMAN. Well, judging from the changes that you made in the program, it looks to me like you're trying to make this documentation process self-explanatory to auditors when they examine the program again. I mean, it looks like there was an acknowledgement that your own internal documentation wasn't clear enough for people to make these judgments, for auditors to make these judgments.

Mr. DICKERSON. Well, in that particular area, I think I would disagree with that, Mr. Glickman. I think that in terms of evaluating what world prices are, there's no way that we can really structure that. That's a subjective decision that's made by the individuals that are on-site and involved in the marketplace.

Mr. GLICKMAN. The problem, as you are well aware, is that it's kind of your word against OIG's word.

Mr. DICKERSON. That's right.

Mr. GLICKMAN. I'm not going to get into a shouting match now about who is right. I guess what I'm saying is when you're talking about taxpayer dollars you've got to make sure that there's some verification of whatever numbers are utilized, and that some auditor is able to look at it and see "hey, you know what, these guys did the right thing". That's all.

Mr. DICKERSON. I think, in response to that, the documentation that we have in place and will have in place in the future will

probably more adequately satisfy auditors who look at that kind of information.

Mr. GLICKMAN. Because, you see, if your auditors disagree with you, what are we, as Congressmen, supposed to do except saying "well, the auditors are wrong, and they're independent, and we've got to go with the other folks". That I think is where we're getting at.

Now with respect to miscalculating or taking into consideration inappropriate incidental costs in bonus calculations, and I think they allege there were about $30 million in that category which is something they cited in their audit, what is your response to this and what kind of controls are now in place to make sure that FAS is not including more money in bonuses for inappropriate incidental costs?

Mr. DICKERSON. Well, the incidental costs, just to give the audience, I think, some opportunity to understand what they are, could include various and sundry legitimate costs to the exporter such as stowing and trimming costs versus loading the vessel free on-board, the cost of opening letters of credit and other legitimate costs that the exporter is going to have to face as he prepares his offer.

We on a regular basis, weekly if not more often, through our own staff resources, we research what those costings are and maintain records of those.

For example, if a buyer is requiring a specific limit on dockage, this is going to require an additional costing on the part of the exporter. Or, as I mentioned, if he's participating in the GSM Program he's going to have a guarantee fee that he's going to have to build into his offering price.

So we document these. We regularly review them so that we have a very sound idea of what those costs are.

Mr. GLICKMAN. Is it made public to the exporter and to the world what incidental costs are legitimate and what are not? Or do you make that subjective determination at each stage of the game? You see, that's one of the potential problems here.

Mr. DICKERSON. We make it regularly. And it differs depending upon the destination, because you may have quality considerations for one buyer that you're not going to have for another.

The exporter, if he's doing his job in determining what his offering price will be, is going to do his own research. We, at the same time, have to consider what those costings are for that destination. And they may change from time to time.

Mr. GLICKMAN. Are exporters' legal fees in connection with this incidental costs?

Mr. DICKERSON. No, I don't think there are legal fees involved.

Mr. GLICKMAN. Well, I do think that you have to define somewhat adequately what they're paying. Because I don't want to get hit by a surprise of something that ought to be legitimately picked up by the exporter themselves.

Mr. DICKERSON. Absolutely. I couldn't agree with you more.

Mr. GLICKMAN. Now according to your testimony, you indicate that FAS will require exporters to maintain records needed by USDA to analyze the financial impact created by the exporters' participation in the EEP and allow USDA access to these records

as well as records relating to sales made outside of the EEP. Is that correct?

Mr. DICKERSON. That's correct.

Mr. GLICKMAN. And that's fairly new, isn't it?

Mr. DICKERSON. That's right.

Mr. GLICKMAN. Will the FAS tell the exporters what kind of bookkeeping to maintain for the EEP, or will you leave it up to the exporters?

Mr. DICKERSON. Any record that we deem necessary in terms of the transaction would have to be in place.

Mr. GLICKMAN. If you find that exporters have been cheating the program, are you in favor of demanding money back from them?

Mr. DICKERSON. Absolutely.

Mr. GLICKMAN. And is there a process to do that?

Mr. DICKERSON. Yes, there is.

Mr. GLICKMAN. Will there be spot checking of books, or will all exporters under the program be examined at some point?

Mr. DICKERSON. Our intention is not to go out and check and audit every single EEP transaction. I think that would be impossible under the circumstances.

If there's reason to suspicion some kind of impropriety we certainly will do so.

Mr. GLICKMAN. With regard to bid assistance, how do you know that your people in FAS are not improperly or secretly giving illegal bid assistance to exporters or importing countries, and what kind of procedures have you implemented to control this?

Mr. DICKERSON. Well, they've been instructed very clearly not to do that. There is a legitimate, I believe, reason for members of the appropriate division to be talking to buyers relative to general market conditions and so forth. But they have definitely been instructed by their superiors not to instruct that buyer in terms of what price he should bid.

Mr. GLICKMAN. And is that instruction in some form of writing?

Mr. DICKERSON. Yes, that is so.

Mr. GLICKMAN. If they do that, they may be subject to criminal penalties?

Mr. DICKERSON. Yes, that is so.

Mr. GLICKMAN. Because I assume that it's a violation of the Federal criminal statutes to engage in illegal bid assistance.

Mr. DICKERSON. I would assume that that's correct. And they have been so instructed by the Under Secretary.

Mr. GLICKMAN. We continue to read, and I don't know how widespread it is, in daily reports by certain Washington consultant firms about the specifics of why exporters' bids were rejected and approximately how much the bids were. Which leads me to believe that you may not have control over what your people say over the phone. And that concerns me.

Now we can't control everything that goes out here in Washington. But leaks like this might have an effect on market prices. I guess my question to you is are there improper leaks going on or are these consultants getting this information strictly on their own analytical data that they've done?

Mr. DICKERSON. I don't have to tell you that certainly there's a lot of information that leaks out in this city, and has for many

years. But our people have been instructed time and time again to be very sensitive to the kind of information that they give to exporters and to anyone that we consider to be market sensitive.

Mr. GLICKMAN. Right. Again, this goes to the point I just raised before about your people knowing the sensitivity of the market information that they've got. It's like these crop reports, what effect they have on the futures markets. It's the exact same kind of thing.

Mr. DICKERSON. I agree with that. And they've been told time and time again, both verbally and in writing.

Mr. GLICKMAN. Now one final question. The GAO in its report on EEP overpayment cited eight examples of overpayments to exporters equaling about $600,000. However, you have informed GAO that CCC actually only overpaid by $300,000. Could you explain why GAO came up with one figure and CCC with another, just to get it on the record?

Mr. DICKERSON. Well, those figures are in the process of being reconciled right now. Approximately half of the $600,000 that we're talking about is the result of a duplication of a bill of lading. And GAO interpreted that as in fact being two bills of lading thinking that bonuses had been paid on two bills of lading, where in fact they had not.

Mr. GLICKMAN. That was half of it, right?

Mr. DICKERSON. That was half of it, right.

There is one remaining, of the approximately $300,000 that's left that represents an overpayment of approximately $260,000 or $270,000 to one particular exporter.

Mr. GLICKMAN. And if that's a genuine overpayment to be found——

Mr. DICKERSON. It appears to be. And FAS is taking the appropriate measures to contact that exporter and seek repayment.

Mr. GLICKMAN. And you have that authority under the law?

Mr. DICKERSON. Yes, we do.

Mr. GLICKMAN. And you can use civil remedies if you can't get it back voluntarily then?

Mr. DICKERSON. That's correct.

Mr. GLICKMAN. I would just ask you one final question and then make a comment to you. Thank you for the answers the questions. We may have more.

How would you characterize—I want to be fair with you—how would you characterize the GAO and the OIG's reports? And I say this because in the law there is a principal that—let's say there was a train wreck and you go out and you fix it. The fact that you fixed the track is not evidence of negligence when the case goes to trial. So you've made a whole slew of very constructive, in my judgment, changes and improvements in the program in the last 6 months. I think you've done it on your own. I think you also have done it at our behest—this subcommittee. So I don't want to say that is evidence of problems that occurred before, although even Mr. Crowder and Mr. Yeutter have said there were problems that occurred in previous years. But I want you to be fair in characterizing how they characterized you all, and then what you're doing to try to deal with those problems.

Mr. DICKERSON. I think, in fairness, they certainly, OIG and GAO, are doing their jobs as they have been dictated to do so. I think at the same time we're dealing with a particular kind of business which is very technical, it's complex, and I think some of the conclusions that they have drawn probably would indicate a lack of background information, historical perspective and knowledge of how our business or how the grain business, the commodity business, really functions.

Not to be duly criticized for that, but I think it's a fact of life.

Mr. GLICKMAN. But you have made some changes though?

Mr. DICKERSON. But I think as a result of their audits and some of the things that they've brought to our attention have resulted in some of the changes that you've pointed out.

Mr. GLICKMAN. And the program can be a better program because of it.

Mr. DICKERSON. I would agree to that, yes.

Mr. GLICKMAN. OK. Well, we'll continue to monitor it. But as I said from the very beginning, my goal is to make this program better, more usable, people to have more confidence in it as long as we're going to continue to use it to meet unfair foreign trade objectives and to move grain. And to move other products as well. Not just grain, but meal, flour, oil—whatever. Butter, dairy matters. Whatever we decide to sell.

And we will be looking to you as we see these regulations come back from OMB. And working with you as we see what kind of things we think need to go into the statute to not unfairly restrict you but to make sure that you have the support from us to do the kinds of things you need to do.

Mr. Chairman, I thank you for your indulgence in allowing me to go further than I had done.

Mr. BROWN. Thank you very much, Mr. Glickman.

Mr. Roberts.

Mr. ROBERTS. Thank you, Mr. Chairman.

I apologize to my colleagues for being late. I have a statement that I would like to insert into the record.

Mr. BROWN. Without objection, it will be inserted.

Mr. ROBERTS. I would yield to my colleague from Montana at this point.

Mr. BROWN. Why doesn't the gentleman from Kansas go ahead, as the ranking minority member on the subcommittee with jurisdiction.

Mr. MARLENEE. I appreciate him yielding, and thank him for yielding.

Mr. ROBERTS. I just want to make it very clear to my friend that his time is my time and my time is his time, and that we'll proceed on that basis.

My colleague from Kansas indicated something about a train wreck. And my concern, even though we have an obligation to conduct very strong oversight responsibility, and certainly we've done that, is that with the OIG report and the GAO report I think people are going to be crawling out of train wrecks faster than we make a sale with the Export Enhancement Program if we're not careful.

I would point out for almost 49,000 wheat farmers in Kansas that the price has rebounded from $2.42 a bushel in the year of 1986–87 to approximately $3.74 a bushel in the 1988–89 marketing year. And there's no doubt in my mind or the minds of my Kansas wheat farmers that the Export Enhancement Program has been the critical factor in supporting wheat prices at the country elevator. And there is no more single important thing that I think you can do on behalf of this program in terms of a beneficial result.

Now I don't mean to pick on OIG, and I certainly don't mean to pick on GAO. But I would remind my colleagues and all present that I think any watchdog outfit, regardless of which alphabet soup agency they belong to or at whose request they conduct an investigation, can come in in terms of 20–20 hindsight and find fault.

I think that you have been most forthcoming. I think you've answered the great majority of questions by the subcommittee. And I would hope that there would be no question in the mind of anybody of the strong support of this subcommittee and the full committee and everybody connected with agriculture on behalf of the Export Enhancement Program.

I think at that juncture, Mr. Chairman, I will simply yield back.

You know, $89 million here is in question in terms of what the world price was in terms of wheat and grain in a program that was dealing with $2.6 billion. And if anybody in this Government can come up with an accurate price in terms of the world price, when our competitors are trying to undersell us, and then 3, 4, or 6 months later, or for that matter, 1 year later, have somebody peer over their shoulder and say "I'm sorry, that's not correct" I think we have to take that with a large grain of salt.

Mr. MARLENEE. Will the gentleman yield?

Mr. ROBERTS. I'd be happy to yield.

Mr. MARLENEE. With regard to the $89 million and the alleged overpayment referred to, I'd like to ask a question in that regard.

What was the total in dollar volume of sales associated with this $89 million?

Mr. DICKERSON. Well, the total value of all agricultural sales over the history of the program has been almost $10 billion.

Mr. MARLENEE. Of that $10 billion?

Mr. DICKERSON. And of that $10 billion, $9.8 billion or $9.9 billion—the total amount of wheat and wheat products that are a part of the EEP program have represented about 80 percent, so probably in the neighborhood of $7.5 billion to $8 billion.

Mr. GLICKMAN. Would my colleague yield on that point—and then I yield you whatever time I've got?

Mr. MARLENEE. Yes, I'd be more than happy to yield to my friend.

Mr. GLICKMAN. Again, not to overstate the program, but OIG's and GAO's numbers were based on spot audits, not on a complete audit of this program. So they have testified the dollar amounts reflected only spot audits. And they could not testify to the total nature of the program.

But I do think the gentleman has stated that there may be a genuine disagreement on this kind of thing. I would point out that there were more issues involved than just this issue. For example, the Marc Rich issue was another issue which is not raised in this

report. This had to do with the largest tax evader in the history of the United States getting some of these bonuses, which has stopped. The Department has moved ahead aggressively on this issue.

Mr. ROBERTS. Would the chairman yield?

Mr. GLICKMAN. Yes, I'd be happy to yield to my other colleague.

Mr. MARLENEE. Let me ask a question with regard to Marc Rich. His activities have been suspended, have they not?

Mr. DICKERSON. That's correct.

Mr. MARLENEE. What was the volume of sales by Richco?

Mr. DICKERSON. I can't tell you the volume of sales. The amount of bonuses that were paid to Richco—not to Marc Rich, but Richco as a company—were, I think, in the neighborhood of $40 million. Somewhere in that category.

Mr. MARLENEE. $40 million.

Mr. GLICKMAN. That's not correct. It's over $100 million.

Mr. ROBERTS. If I could reclaim my time. I think what we have here is a very sensitive issue. On one hand, the chairman of the subcommittee raised some very good points and we have been conducting oversight hearings. And on the other hand, and it's not an adversarial kind of relationship, there are those of us who understand that this Export Enhancement Program has been the single most important factor in terms of a dramatic price increase and market share in the countryside. And we don't want to simply throw the baby out with the bath water.

You have been forthcoming. We're getting the program with the subcommittee's seal of approval. Nobody is doing the backstroke. I would just tell my colleagues don't be so sensitive about this. I think we'll continue to do a good job. Funding has been increased for this program.

But let me ask one question. Isn't it the case in terms of the transportation cost situation that OIG has now backed you up in regard to their original complaint?

Mr. DICKERSON. That's correct.

Mr. ROBERTS. I think we need to go forward with this program with the suggestions that have been made by my colleague, and I congratulate you on being forthcoming. And, again, I can't emphasize enough the importance of this program to my producers. And for that matter our position in GATT and what we're about in terms of agricultural program policy.

I yield back, Mr. Chairman.

Mr. BROWN. I'm not sure whether I should recognize Mr. Marlenee for the remainder of Mr. Roberts' time, which has expired already, or recognize Mr. Penny. I think I'll recognize Mr. Penny, if you don't object.

Mr. PENNY. Thank you, Mr. Chairman.

Mr. Dickerson, in your opinion would there have been a more cost effective way for us to compete with foreign countries who were subsidizing their exports?

Mr. DICKERSON. No, I don't. I think this has been a very good program. The total amount of expenditures by the EC for subsidy bonuses is in excess of our own. Far more extensive, obviously. It's in the range of about $10 billion a year, as compared to ours of $338 million to $1 billion a year.

Mr. PENNY. You estimate that their export subsidies were in the range of how much?

Mr. DICKERSON. Approximately $9 billion, $10 billion or $11 billion.

Mr. PENNY. Nine to $10 billion a year?

Mr. DICKERSON. That's correct.

Mr. PENNY. Compared to no more than half a billion for our program on an annual basis?

Mr. DICKERSON. That's correct.

Mr. PENNY. Have you within the Department of Agriculture done an assessment of the cost of this program compared to a marketing loan for the same commodities?

Mr. DICKERSON. My colleague feels that in the early stages there may have been some work on that. But I don't have access——

Mr. PENNY. You don't have any recent information on that?

Mr. DICKERSON. No.

Mr. PENNY. Because that, as you recall, in 1985 was an optional farm policy that was debated by this committee and rejected in favor of the EEP and the other provisions of the 1985 Farm Act.

Mr. DICKERSON. I might add that the EEP actually was initiated in June 1985 under the CCC Charter Act authority, prior to——

Mr. PENNY. I understand. But we made an endorsement of that approach as part of the 1985 farm bill.

You indicate in your testimony that we received additionality, which means the amount of overseas sales above and beyond which might normally have been expected of between 10 and 30 percent. And you leave a wide spread there because of certain variables. But in the area of wheat alone you also testified that better than 50 percent of wheat sales were assisted by EEP.

When you're subsidizing half of the sales of a particular commodity, and yet you can only testify that it improved our additionality by 10 to 30 percent, what accounts for the disparity in those statistics?

Mr. DICKERSON. Well, you can't necessarily completely reconcile the two. It's the level of bonuses that were approved. And over the history of the program obviously they have been from $1 to $2 a ton to as high as $49 or $50.

I think over the history of the program it has been probably in the neighborhood of somewhere between, I think, about 30 percent of the value of the commodity.

So I think you can still take those numbers and reconcile them and have them still come out to have subsidized 56 percent of export sales but still have created 10 to 30 percent additionality.

Mr. PENNY. But wouldn't the subsidy on 56 percent of the EEP sales for wheat also track with—I guess what you're saying is that some of that 56 percent might have moved without a subsidy, but certainly not all of it. And if that's the case, then what justified the subsidy on those amounts.

Here's the point. I suppose what's happening is you've got certain countries that would have bought a lesser amount. And because of the subsidy they bought a larger amount.

Mr. DICKERSON. That's right.

Mr. PENNY. And that's where you get the difference between the percentages. So you can't zero this in on a case-by-case basis and

say that 30 percent would have moved anyhow. And so the criticism that we've oversubsidized is refuted in that way.

Mr. DICKERSON. That's right.

Mr. PENNY. What about corn? It's kind of hanging out there as an unsubsidized commodity. Have we been doing so well there and faced so little competition there that there has just been no need for that?

Mr. DICKERSON. Well, the United States is the largest producer of corn in the world by far, substantially over the next producer, which is China. There basically has never been any particular reason perceived to subsidize corn exports from this country.

Mr. PENNY. Again, as you say, we're the dominant player. Are we faced in any markets with head-to-head competition with those that are subsidizing their corn sales into the world market?

Mr. DICKERSON. There is some activity by the EC on subsidizing corn exports into some areas, I believe, in the Med, but by and large it has simply been perceived by the U.S. Government that there was no need for us in an overall sense to have to subsidize corn exports.

Mr. PENNY. And on page 8 of your testimony you indicated that in response to the OIG investigation calling for written policies and procedures you've basically implemented and published in the Federal Register the policies of the President's Economic Policy Council. And then you go on to cite several other instances in which you've taken action to respond to OIG recommendations.

Are all of these additional actions part and parcel of these policies that have been published in the Register, or are they separate additional policies that you've implemented?

Mr. DICKERSON. Almost all of them are. Perhaps one exception would be the internal procedures which refer to and enumerate the internal procedures that we use within FAS to determine what a bonus is. That's an internal document we construe to be market sensitive, which will not be part of the regulations.

Mr. PENNY. But is there any reason that that procedure whereby you determine the market price in a given instance couldn't be formalized as part of an overall policy?

Mr. DICKERSON. I think to do so, as I mentioned in my testimony earlier, would tend to flag to our competition, specifically EC, what our intentions are. The methodology we use would perhaps unduly prejudice our position relative to price discovery and also the size of the bonuses which are awarded.

Mr. PENNY. But the methodology wouldn't necessarily have to predetermine the level of the subsidy. The methodology would simply spell out the criteria that would be taken into account, and in different settings it would result in a different subsidy. So I don't think that would necessarily signal to the competitors that they could undercut us because one of the criteria would certainly be a consideration of their level of subsidy. And so I'm not sure that's a legitimate objection.

Mr. DICKERSON. But I think we have made it very clear to the interested parties in this whole program that basically what we're doing is we're subsidizing U.S. agricultural exports on a landed cost basis using our domestic prices to converge upon a C&F value as

compared to what the competition is doing. The difference being our judgment of a necessary subsidy.

I think we've made that clear to any interested party that that is the mechanism that's used. So to specify exactly the methodology would be to take it one step further and perhaps prejudice our position vis-a-vis competition as well as determination of the bonus.

I think the overview, what I'm saying, is clearly identifiable for those who are interested without having——

Mr. PENNY. Well, that is my concern. To have the documentation there, sufficient in nature to satisfy anybody that's taking a look back at your procedure so that you don't——

Mr. DICKERSON. Well, that is in place. There's no question about that.

Mr. PENNY. You seem to indicate that it doesn't have to be formalized in departmental policy. But I do want to be assured that those internal policies are clear enough, and that enough of a record is kept on these matters that you don't have to worry about being exposed in the future for making a judgment on subsidy levels that can't be borne out by the criteria.

Mr. DICKERSON. I understand. And that documentation is in place.

Mr. PENNY. Mr. Chairman, I have no further questions at this time.

Mr. BROWN. Mr. Nagle.

Mr. NAGLE. I am looking at a document that was furnished to us called The International Trade Activity Under the Export Enhancement Program by the GAO. Do you have that document?

Mr. DICKERSON. I've seen it, sir.

Mr. NAGLE. Could we get you a copy of it, because I've got some questions on it.

Could you turn to page 32 for me. This is a document dated February 1990. And on page 32 it lists the ranking of exporters by total value of EEP bonuses received through February 28, 1989.

I was curious to know who our bonuses are going to. Are they going to American exporters or are they going to foreign exporters who have an office in the United States. Could you look at the top 10 and tell me how many of those are purely American companies and how many are foreign exporters who have an office in the United States?

Mr. DICKERSON. I can't give you the heritage of all of these companies. But they're all U.S. corporations. They can't participate in the program unless they are U.S. corporations. If you're talking about the lineage of these companies——

Mr. NAGLE. How many principal offices are located in foreign capitals?

Mr. DICKERSON. Some of these firms are in fact multinational firms, the headquarters, starting with Cargill. Cargill is a firm which is over 100 years old. Continental Grain is a U.S. corporation. I think the lineage of Continental goes back probably to the early twentieth century, I know that, when they moved their offices from Europe.

Mr. NAGLE. I didn't think this was going to be a problem, but let's—Dreyfuss is a United States corporation with its principal offices in the United States?

Mr. DICKERSON. That's correct.

Mr. NAGLE. And Ferruzzi, for example, is a United States corporation with its principal offices in the United States?

Mr. DICKERSON. I'm sorry. Could you repeat your question, sir?

Mr. NAGLE. Ferruzzi is a United States corporation with its principal offices in the United States?

Mr. DICKERSON. No. I think Ferruzzi is primarily an Italian company with representative offices here. They're a multinational corporation.

Mr. NAGLE. And Richco, we've already talked about that. Where are their principal offices?

Mr. DICKERSON. Richco, as a corporation, is a U.S. corporation.

Mr. NAGLE. But it's a subsidiary, isn't it, of a larger organization that's located in a foreign country?

Mr. DICKERSON. I can't answer whether Richco is actually a subsidiary. I think that the name Richco came into being for their U.S. operations.

Mr. NAGLE. I don't mean to pick on them, but are you telling me that Mitsubishi is a U.S. company?

Mr. DICKERSON. It is incorporated in the United States, Mitsubishi USA is. Mitsubishi is primarily a Japanese corporation, with a U.S. subsidiary operating in this country as Mitsubishi USA.

Mr. NAGLE. How many of these companies are of a form similar to Mitsubishi?

Mr. DICKERSON. Well, a number of these companies—they're all multinational corporations. Some of these have their lineage from other continents, from other countries. Some have their primary operations outside the United States, some have their primary operations here in the United States. And I can't identify for you the lineage of every one.

Mr. NAGLE. I think you and I could agree that a substantial number of them have their primary operations outside the United States, and in fact are foreign corporations with a subsidiary in the United States to qualify for the program. We could agree with that, could we not?

Mr. DICKERSON. I would agree with that.

Mr. NAGLE. Now, the administration has asked, I think, for a $150-billion increase in the amount allocated to the Export Enhancement Program. And at the same time has asked Congress to cut $1.5 billion out of the domestic agricultural budget, principally from suggested target prices or loan rates. I guess I would like to know the rationale as to why we should increase the amount of money that we subsidize foreign corporations and decrease price protection for American farmers.

Mr. DICKERSON. Well, my response would be that the subsidies are not going to line the pockets of these exporters regardless of whether they're primarily a foreign corporation or a U.S. corporation. The subsidies that we're discussing involve a difference between the world price and the U.S. domestic price.

The exporter is using that subsidy, or that bonus, to bridge the gap between our domestic prices and unduly subsidized prices by our competitors, specifically the EC.

Mr. NAGLE. Some of these foreign corporations are in fact principally organized in countries who are, in our judgment, unfairly subsidizing their agricultural exports. Is that correct?

Mr. DICKERSON. Some of these are European firms.

Mr. NAGLE. So you can sit there and be an Italian corporation. Your government can subsidize your agricultural exports, in our judgment unfairly, and the United States will pay you to compete against the country in which you reside.

Mr. DICKERSON. Well, my response would be all of these exporters, whether they're U.S. based primarily or foreign——

Mr. NAGLE. That's a fair statement of it. Let's stay with what—that's a fair statement, isn't it? It is a fair statement, isn't it.

Mr. DICKERSON. Would you repeat the statement, please?

Mr. NAGLE. What we're doing is we are subsidizing foreign corporations whose government in the country they reside is, in our judgment unfairly, subsidizing their own agricultural exports.

Mr. DICKERSON. I wouldn't agree with that statement, sir, with all due respect.

Mr. NAGLE. All right. Now does Ferruzzi—they're principally an Italian corporation, are they not?

Mr. DICKERSON. That's right.

Mr. NAGLE. And doesn't Italy provide a rather lucrative subsidy to their soybean producers?

Mr. DICKERSON. That's correct.

Mr. NAGLE. So you can sit there in a foreign country which is your principal residence as a foreign corporation and use the United States to subsidize our exports against the subsidies of the country in which your principal offices are.

Mr. DICKERSON. Well, the firm that you mentioned has substantial capital investments in this country. They have, presumably, P&L accountability, they have to be concerned about their activities here. They are also involved in moving, just as any other exporter is, in moving U.S. agricultural exports abroad.

Mr. NAGLE. But I'm trying to contrast that with the requirement that the administration—you didn't, but the administration did—the request that we cut $1.5 billion out of the domestic producers, farmers, at the same time that we're subsidizing the sales of foreign corporations whose very countries are subsidizing their agricultural producers.

It seems to me the farmer is being left out of this equation.

Mr. DICKERSON. I don't agree, sir. We're subsidizing exports, but we're not subsidizing exporters.

Mr. NAGLE. You mean the money goes directly to the country?

Mr. DICKERSON. No, sir. It goes to the exporter. But the exporter is using that to bridge the gap between the lower price he is selling in the world price market and the difference between what he has to pay for the domestic product in this country. He can't make the sale without bridging that gap.

Mr. NAGLE. Well, we made 36 sales for Ferruzzi. We gave them $25,957,142 in bonuses. Do you think it's possible that next year they could get by on just another $25 million, and maybe we would not have to cut $1.5 billion out of the domestic producers?

Mr. DICKERSON. I think we're probably talking about—we're going in different directions, I'm afraid, sir. And I'd like to repeat

that the subsidy represents the difference between the domestic price and the world price. The subsidy has been——

Mr. NAGLE. Is it cash or grain?

Mr. DICKERSON. It's in the form of a certificate which can be redeemed for the commodity out of CCC inventory.

Mr. NAGLE. And the grain that they're going to redeem with the certificate has value that's the equivalent of $25,900,000?

Mr. DICKERSON. That's right.

If I may, if you'll allow me to give you an example.

Mr. NAGLE. Sure.

Mr. DICKERSON. If you were to sell a product overseas for $80 and you buy it for $100 in this country, you're going to lose $20 a ton. The bonus of $20 makes up the difference. So the $20 does not go in the exporter's pocket as a subsidy or to enrich him, it makes up the difference between the lower price that he's selling in the world market and what he has to pay for the commodity in the U.S. domestic market.

So it's not a subsidy to the U.S. exporter.

Mr. NAGLE. I thought I remembered the OIG saying that at one sale that we subsidized we provided and enabled that producer or that exporter to have a profit of over 400 percent. Do you recall that sale?

Mr. DICKERSON. I don't recall one for 400 percent. I recall, in their judgment, one had a 50 percent profit margin. I happen to disagree with that.

Mr. NAGLE. And you'd say that they're wrong, that that really wasn't profit, that's just subsidy.

Mr. DICKERSON. My conclusion is that OIG's estimate of what that profit was on that trade is faulty.

Mr. ROBERTS. Would the gentleman yield?

Mr. NAGLE. Sure, I'll be happy to yield.

Mr. ROBERTS. Is the gentleman suggesting that we limit the Export Enhancement Program only to corporations that are domestic corporations?

Mr. NAGLE. The gentleman is suggesting that if it's a choice between cutting $1.5 billion out of producers' income or subsidizing foreign exporters, yes, the gentleman is suggesting that we ought to take care of our own farmers first.

Mr. ROBERTS. If the gentleman would continue to yield, he was not present when I made the point that due to the Export Enhancement Program—and I may borrow a phrase used by my predecessor, you've got to sell it, not smell it. And I realize it's not for corn primarily, it has been for wheat. But as a result of that program the average price per bushel in Kansas was $2.42 in the marketing year of 1986–87. That went to $3.74 per bushel in the 1988–89 marketing year primarily due to the Export Enhancement Program. It was the gentleman's colleague from Iowa, Mr. Bedell, and I who went down to the first EEP review board meeting at a time in farm country when prices were on the floor. We were in Death Valley looking for any assistance we could to bolster exports.

Mr. Bedell and I urged the Department to use the program across-the-board. We were told at that particular time that it was to offset unfair trading practices.

Well, if they are unfair trading practices used by our competitors in the international—and it is international—grain market, I don't see how we can limit it to domestic corporations. And, in addition, with that price increase we have to pay farmers less of a deficiency payment.

And my concern here is after fighting tooth and nail—yes, with the previous administration—to get any kind of an export program, and let me remind the gentleman that it was due to a budget vote in the Senate that we were able at least to get this and make an arrangement with Mr. Stockman, we all remember Mrs. Stockman's very brilliant son, that we finally got the program.

And it seems to me that the gentleman has to understand that in terms of the wheat market, at least, this is the only program we've had to increase market share. And that it must be applied internationally or we're not going to sell any grain.

Mr. NAGLE. Well, if I could reclaim my time. I appreciate the lecture.

Mr. ROBERTS. It's not a lecture. It's just a fact.

Mr. NAGLE. If I could reclaim my time?

Mr. BROWN. The gentleman's time has expired. But you may have an additional minute if the gentleman wishes.

Mr. NAGLE. I'm talking about where our priorities are, and whether or not it's really necessary to increase our subsidies, as the administration has requested, in light of the administration's request, not the gentleman from Kansas's request, that we cut $1.5 billion out of the target prices and commodity programs.

And, to me, when you look at the list, I think Mitsubishi could get by on the same $21 million they got last year and we wouldn't have to cut as much from the Farm Program as the administration has proposed.

That's my point. And I yield back the time I have remaining.

I thank the chairman for his indulgence.

Mr. BROWN. The time of the gentleman has expired.

The Chair is trying to expedite the process so that we may be able to attend a joint session of the House and Senate which will occur in a few minutes. And I'd like to recognize the members who haven't been recognized.

Mr. Smith.

Mr. SMITH. I thank you, Mr. Chairman.

Mr. Dickerson, I'm interested in the request—I applaud the administration's effort to increase the Export Enhancement Program to $500 million. How does that wash with our short-term agreement with GATT which freezes all Export Enhancement Programs at the current level?

Mr. DICKERSON. Well, if I understood your question correctly——

Mr. SMITH. Well we've raised EEP, as you know. How does that wash with regard to the short-term agreement with GATT?

Mr. DICKERSON. I think until we have some kind of short-term agreement within the GATT, we're going to have to maintain an Export Enhancement Program which is fully capable of——

Mr. SMITH. Well, now, wait a minute. We have a short-term agreement.

Mr. DICKERSON. Right.

Mr. SMITH. Biasing only for this year. I assume the reason is that going into next year there is no agreement, so that allows us to go into the 1991 Farm Program with increased export enhancement. Is that your proper answer?

Mr. DICKERSON. Well, that's right.

Mr. SMITH. So I assume then that that is a trading operation. And we have agreements with the European Community that the Export Enhancement Program would be the first to go.

Mr. DICKERSON. We would hope so, yes.

Mr. SMITH. Then the loan programs that we have, just in one of the three, have programs that are not market prohibitive nor distortionist. So I assume those loan programs would stay.

Mr. DICKERSON. That's our intention. Assuming you're referring to the 102 and 103 credit programs, yes sir.

Mr. SMITH. So, they're not market-distorting programs. They would stay in any country under any agreement, I assume.

Mr. DICKERSON. These are commercial credit guarantee programs, yes sir.

Mr. SMITH. Then let me ask you, are there nations around the world that would like to take the advantage of some 102 programs and at the moment have not been able to?

Mr. DICKERSON. No, there actually are not. There certainly is——

Mr. SMITH. Well, now, wait a minute. Before you say that, you wrote me a letter answering a question. I asked you that question. I know it has been awhile. This is on December 26, 1989.

In response to that question, the answer was a number of countries have requested higher lines of coverage than can be accommodated in the existing ceiling. Most of those countries present a high risk.

Mr. DICKERSON. That's right. Sir, I thought you were referring to new countries that were not now in the program. Yes, we have had several countries who have asked to have their lines expanded.

Mr. SMITH. Now since the time you answered that question, and the events occurring in Eastern Europe, what are the plans of our Government to accommodate those countries that might have good credit responsibilities? What are our plans to provide foodstuffs to those countries that might not have been included when this note was written?

Mr. DICKERSON. I might first of all mention that Yugoslavia—I presume that we're talking about Eastern Europe?

Mr. SMITH. Yes.

Mr. DICKERSON. That Yugoslavia currently has a $40 million line of credit in place, and Hungary has $26 million. It would be our intention to attempt to, where credit worthiness is justified, that we would certainly consider expanding that program to include countries in Eastern Europe that could expand U.S. agricultural exports. And that would include further risk analysis on our part, as well as attempting to have the human resources in place to FAS to effectively carry out the program.

Mr. SMITH. Of course. And I go along with providing the flexibility to do exactly that. Because I foresee, as you do, there may be opportunities in Eastern Europe that this loan program, being another tool, could be more important than any other. Assuming we might lose our export enhancement agreement.

So what are the inhibiting factors in your Department, other than manpower—and I understand that is one. You have a severe manpower problem in expanding credit.

Mr. DICKERSON. Well, it's severe to those who are burdened with the kind of overload that they have now from a program which has gone from——

Mr. SMITH. It's not severe to you—it's severe to them.

Mr. DICKERSON. Well, severe to me as well. But, nevertheless, the tail doesn't wag the dog. And those are changes that will have to be made to promote this kind of a program. And certainly we're in a position to encourage that, and we will encourage that.

Mr. SMITH. Is that part of this budget request for people to prop up that loan program so that we could respond to these higher demands around the world for credit?

Mr. DICKERSON. I'm not sure that I'm following you.

Mr. SMITH. Is it in the Department of Agriculture to expand the numbers of people that are responsible for the credit program——

Mr. DICKERSON. Yes, it is. That's correct.

Mr. SMITH. That would encourage larger amounts even over $5 billion?

Mr. DICKERSON. There might have to be additional resources to take it substantially above that.

Mr. SMITH. But we do agree that that is an essential tool for our future with respect to the GATT and with respect to opportunities in Eastern Europe and around the world.

Mr. DICKERSON. Absolutely.

Mr. SMITH. Thank you very much.

Mr. BROWN. Mr. Stangeland.

Mr. STANGELAND. Thank you, Mr. Chairman.

This isn't so much a question, but you may want to comment on it. My congressional district and North Dakota raised the bulk of the Hard Red Spring wheat in this country. My producers complain that EEP money is not used for Hard Red Spring. And I think the argument is that Hard Red Spring readily finds a market, consequently you haven't had to use it.

But we are head to head in competition with Canada that also produces a great deal of Hard Red Spring. And they see it as somewhat unfair that they are not included in EEP. I'd just like to have you take that into consideration. You may want to respond, I don't know.

I have one other question that Congress Stenholm, who is chairing a dairy hearing at the current time, could not be here and ask.

Mr. BROWN. He's here.

Mr. STANGELAND. Now you can ask your question, Charlie.

Mr. STENHOLM. Go ahead.

Mr. STANGELAND. But if you'd care to comment on that—the concern of my wheat growers in not using EEP money for Hard Red Spring. I think it ought to be considered because we go head to head in competition with Canada more than any other farmers in the country because of that proximity, because of the same type of products we're producing.

Their wheat, their Durum is coming into this country, their hogs are coming into this country. And they just see the Canadians as

their competition, and they aren't allowed to compete for EEP money in competition with Canada.

Mr. DICKERSON. I would like to respond to that. One, we don't differentiate—we don't set a separate bonus for a separate class of wheat. We allow the world buyer to determine what class of wheat he wishes to buy.

You have to have a starting point. And so a particular nation will focus on a particular class of wheat. For example, if a buyer is typically a Hard Red Winter wheat buyer and he wishes to buy Spring wheat, the program is operated in such a way that he—foreign buyer—pays the market spread. He pays the U.S. market spread premium or discount and this is translated into the world price.

If it's Spring wheat at a discount to Hard Red Winter wheat, then he—exporter—in fact receives the same bonus, with our calculation of bonus being made on the U.S. domestic market price spread.

In terms of Spring wheat participating in the EEP program this past year, or in the current marketing year, actually 37 percent of total wheat exports and open sales to date have been accessed with EEP. Thirty-seven percent for all classes of wheat.

Spring wheat, as a matter of fact, has—42 percent of Spring wheat commitments have been accessed by EEP. So it isn't below what has been used overall for other classes of wheat. In fact, actually, Spring wheat exports this year are up rather substantially over the last year, and the highest year in the last 4 or 5 years.

Mr. STANGELAND. Let me get that straight. Forty-two percent of the Hard Red Spring exported benefited from EEP money?

Mr. DICKERSON. That's correct, for this marketing year to date.

Mr. STANGELAND. Thank you.

Mr. DICKERSON. Total commitments for Spring wheat for the year to date are 6.8 million tons, of which 2.9 million has been accessed with EEP. For all classes of wheat, it's 37 percent.

Mr. BROWN. Mr. Stenholm.

Mr. STENHOLM. Just briefly, and for the record. My questions are concerning dairy. Should we have EEP in the future regarding dairy, dairy cattle? Shouldn't we have a total package in which technology accompanies the cattle?

In the past, we've had no technology relative to cattle and it has been a disaster. Shouldn't we develop, if we have EEP programs, a total technology package—management technology—to go with the cattle?

Mr. DICKERSON. Your statement certainly gives room for further review. The Export Enhancement Program as it was carried out for dairy cattle was not a particularly efficient program, as I think you're well aware. And it was discontinued in December 1988. And it's my understanding—it was before my tenure with FAS, but it's my understanding that one of the major problems with dairy cattle was frankly price discovery. The different kinds of cattle in this country, the problems of delayed shipments, adjustments to bonuses, price discovery of foreign cattle, trying to make that discovery to determine what that bonus should be.

And in fact at one point the bonuses exceeded actually the value of the cattle. So I think it became a program that most construed

to be a rather—not a very good idea, frankly, sir. And it was discontinued.

Now in terms of an additional program for the future, reevaluation of the criteria you mentioned certainly could be reviewed.

Mr. STENHOLM. I look forward to working with you on that if we in fact do develop a program along those lines.

Thank you, Mr. Chairman.

Mr. BROWN. The Chair would be happy to recognize Mr. Glickman.

Mr. GLICKMAN. Mr. Dickerson, I just want to, again, clarify for the record—first of all, I want to thank you for your help and for the good work that you've done to try to honor some of the requests that we have made.

For the record, when these regulatory proposals return to USDA from OMB, will you notice them immediately?

Mr. DICKERSON. That's correct.

Mr. GLICKMAN. Do you have any reason to believe that OMB is going to reject these proposals?

Mr. DICKERSON. I have no reason to believe that, sir, no.

Mr. GLICKMAN. And then they're effective within what—within 60 days?

Mr. DICKERSON. Sixty days, I believe, is the time.

Mr. GLICKMAN. Are you operating now as if those proposals were in effect for all practical purposes anyway?

Mr. DICKERSON. Yes, we are.

Mr. GLICKMAN. Thank you, Mr. Chairman.

Mr. BROWN. Any other member desire to make any concluding statement or questions?

[No response.]

Mr. BROWN. If not, the Chair would like to thank the witnesses very much for their very helpful contribution to the hearing, and we will stand adjourned.

[Whereupon, at 11:05 a.m., the subcommittees were adjourned, to reconvene at the call of their respective Chairs.]

[Material submitted for inclusion in the record follows:]

Statement by F. Paul Dickerson
Associate Administrator and General Sales Manager
Foreign Agricultural Service
U.S. Department of Agriculture
Before the Subcommittee on Wheat, Soybeans, and Feed Grains
House Committee on Agriculture
February 21, 1990

Mr. Chairman, members of the subcommittee, I am pleased to be before you to discuss the Export Enhancement Program (EEP) and to answer any questions you may have concerning the program and its management.

Since Under Secretary Crowder last addressed you in July, we've made what I believe are significant management improvements in the program which I'd like to summarize for you today. I'd also like to address the findings of a report prepared by the U.S. Department of Agriculture's Office of the Inspector General and our response to the report's findings and recommendations.

Background

Before I discuss the current EEP, I'd like to briefly describe the rationale behind the EEP when it was implemented in 1985. I'm sure you remember the agriculture environment then -- a sharply lower level of U.S. agricultural exports, subsidized foreign competition, high Commodity Credit Corporation (CCC) stock levels and commodity program outlays, and much concern over the welfare of the farm sector. During the period 1981-1985, U.S. agricultural export volume fell nearly 25 percent as a result of unfavorable macroeconomic conditions and U.S. policies that had the effect of encouraging production and export expansion in competitor countries.

Together with a reduction in loan rates the EEP was designed to bolster U.S. export competitiveness in light of competitors' unfair trading practices by reducing the export price of selected U.S. commodities sold to

buyers in targeted markets. This was to be achieved by providing U.S. exporters with CCC-owned commodities, and later commodity certificates exchangeable for commodities, thereby enabling U.S. exporters to match prices offered by subsidizing competitors.

The EEP was intended to achieve the following primary objectives:

--challenge unfair trade practices that hurt U.S. exports, especially those of the European Community (EC);

--encourage serious negotiations on agricultural trade under the auspices of the General Agreement on Tariffs and Trade (GATT); and

--boost U.S. agricultural exports.

At the time of the program's inception, the Economic Policy Council established criteria under which the EEP would operate. Specifically, the intent was that each initiative would meet the criteria of:

*additionality--EEP sales must increase U.S. agricultural exports above what would have occurred in the absence of the program;

*targeting--EEP sales must be targeted on specific market opportunities, especially those that challenge competitors which subsidize their exports;

*cost effectiveness--EEP sales should result in a net plus to the overall economy; and

*budget neutrality--EEP sales should not increase budget outlays beyond what would have occurred in the absence of the program.

Chronology of EEP Activities

With that information as background, enables me, then, to discuss events of the last year. After four years of program operation, and with a new administration, questions were raised about how well the EEP met its objectives and criteria and how well the program was managed. I would like

to present a brief chronology of USDA actions regarding the EEP which have been taken since late 1988.

*November 1988: The Administration agrees to undertake a study to assess whether the EEP was meeting its objectives and criteria.

*February 1989: The Administration agrees on the scope, outline, and schedule for the study of the program.

*May 18, 1989: Under Secretary Crowder reminds all employees of the Agricultural Stabilization and Conservation Service, the Foreign Agricultural Service, and Office of International Cooperation and Development of need for safeguarding market sensitive information.

*May 1989: USDA initiates an internal investigation of Marc Rich's involvement with Richco Grain, an exporter which has participated in the EEP. USDA is still conducting its administrative review of this matter.

*June 1989: USDA requests formal investigation by the Department's Office of Inspector General regarding the relationship between Marc Rich and Pincus Green in the management and control of Richco Grain.

*June 1989: USDA reemphasizes the importance of achieving greater balance among commodities under EEP. Since that time, 22 initiatives and allocations have been announced, including two for barley, three for barley malt, one for eggs, two for vegetable oil, eleven for wheat and three for wheat flour.

*July 31, 1989: Under Secretary Crowder presents the EEP study before the Subcommittee on Wheat, Soybeans and Feed Grains - House Committee on Agriculture

*August 1, 1989: After premature release of proposed initiatives, USDA cancels all EEP initiatives which were approved but not announced to maintain integrity of the program with respect to market sensitivity.

*August 1, 1989: All Invitations for Offers under the EEP now include a expiration date of one year from the date of issuance. After this date CCC will no longer accept offers from exporters under the particular invitation.

*September 29, 1989: Richco Grain is suspended from participating in all CCC programs pending the outcome of USDA's investigations.

*October 1989: Administration agrees to new program guidelines.

*October 17, 1989: USDA begins issuing notices of bid acceptances at 10 a.m. Eastern time to allow all U.S. exporters to have information on EEP bids which have been accepted by the time the commodity futures markets open in Chicago.

*October 17, 1989: USDA issues an internal policy memo to ensure that every possible precaution is taken to prevent the acceptance of a sales price that is lower than a buyer would have offered in the absence of discussions with FAS personnel. Memo requires that USDA communication with buyers be limited to a discussion of market conditions.

*October 26, 1989: USDA's Office of General Counsel issues an opinion on the practice of including cost differentials for freight in the review and consideration of bonus offers from exporters under the EEP.

*November 17, 1989: FAS Administrator Rolland Anderson reminds all FAS employees of the need for safeguarding market sensitive information.

*November 24, 1989: USDA announces revised guidelines for EEP which will be used to determine the annual program level and selection of proposed sales initiatives. Guidelines were published in the Federal Register on November 27.

*December 8, 1989: Amendments were made to EEP commodity announcements to change the definition of a sales contract to include minimum requirements for a standard sales contract.

*December 8, 1989: Amendments were made to EEP commodity announcements to change provisions relating to the audit of records and access to premises.

*December 22, 1989: USDA finalizes written procedures for bonus calculations and world price determinations. The guidelines call for documenting any adjustments made to price quotes and re-evaluating incidental costs periodically.

*January 19, 1990: USDA announces that all EEP invitations issued before August 1, 1989 will expire on September 28, 1990. Invitations that expire may be reconsidered by USDA.

*January 29, 1990: The proposed rule setting forth regulations for the EEP is signed by USDA's General Sales Manager F. Paul Dickerson.

*February 9, 1990: Amendments are made to the EEP announcement for vegetable oil to require exporters participating in the EEP to certify that they will not use the exportation of vegetable oil for which they received an EEP to claim a duty drawback. This change was required by Public Law 101-220, Section 13.

Program Evaluation

That briefly summarizes USDA actions to improve the EEP. I would now like to explain several of those actions in more detail. In 1988, the Office of Management and Budget requested that USDA undertake a study to review and assess the program's effectiveness.

As Under Secretary Crowder testified before the Subcommittee in July, the USDA study was conducted by a Department task force representing several agencies and has a solid theoretical base and empirical evidence to support its conclusions. Since you were all provided with copies of the study last summer, let me simply highlight the results here.

The study concluded that the principal objectives of the EEP have largely been met. The program has challenged unfair trade practices, expanded U.S. agricultural exports, and spurred trade negotiations.

The study also concluded that the EEP operational criteria generally have been met. Using wheat as an example, the study found that:

--The program has been targeted;

--Additionality of between 10 and 30 percent depending on market conditions and other factors, has been achieved for U.S. wheat exports;

--Budget neutrality, although difficult to measure, has been demonstrated for wheat exports under the program by econometric analysis;

--There have been net economic benefits for the economy as a result of the program.

Another finding of the study was that program objectives and criteria needed to be clarified and more closely related so that they do not work at cross purposes.

That finding resulted in our announcement in November 1989 of new guidelines that we are using to determine the annual level of programming and to select proposed sales initiatives under the EEP.

Under our new guidelines, we now evaluate proposed sales initiatives based on four factors. These are:

First, the trade policy effect. EEP proposals must support the U.S. negotiating strategy of countering the export subsidies and unfair trade practices of competitors. Countries targeted for EEP sales are those where we have been unable to sell U.S. products or where the U.S. market share has dropped because of competition from subsidized exports.

The second factor is the export effect. We analyze whether an EEP initiative has the potential to develop, expand or maintain markets for U.S. agricultural commodities.

The third consideration is the effect on non-subsidizers. We try to determine how an initiative will affect exporters who do not subsidize. To be approved, EEP initiatives must not have more than a minimal adverse impact on non-subsidizing exporters.

The fourth factor we consider is subsidy requirements. We compare subsidy costs with anticipated benefits. The overall program level, as well as the amounts of bonuses awarded under individual initiatives, must be kept

at the minimum levels needed to meet the program's objectives.

Together, these four requirements result in the selection of commodities and countries that best meet the program's trade policy and export expansion objectives.

Along with implementing these revised guidelines, we are working to improve our internal program review and approval procedures. We also have developed a less complicated interagency review process which will ensure timely decision making and which is consistent with program objectives and guidelines.

In addition to responding to questions about the overall philosophy and direction of the program, we also have responded to the criticisms raised by USDA's internal auditors over the day-to-day operation of the program.

We have been working closely with the Department's Office of the Inspector General (OIG) since it initiated an audit of the EEP in November 1987. EEP program officials and OIG staff discussed a draft report in June 1989, and a preliminary report was issued two months later in August. The final report was issued January 10, 1990.

As a result of OIG recommendations, we have made some important changes to address the auditors' concerns about bonus levels, accountability, price calculations, and procedures. Let me highlight the major recommendations made by the auditors and our response to them.

-- OIG cited the need for written policies and procedures for all aspects of the EEP. As I mentioned a few minutes ago, the President's Economic Policy Council established written criteria for EEP operations at the outset of the program. Those criteria were redefined and published in the Federal Register on November 27, 1989. The new guidelines take into account the effects of the EEP on trade policy negotiations, U.S.

agricultural exports, other exporting nations that do not subsidize agricultural production and exports, and overall benefits of subsidies under the program. In addition, the Foreign Agricultural Service (FAS) has developed written policies and procedures for all significant aspects of the EEP. In addition, on its own initiative, FAS recently drafted proposed regulations dealing with the operation of the EEP.

-- OIG questioned whether the Food Security Act of 1985 allows bonus values to include freight costs for overseas shipments. It called on FAS to conduct a cost-benefit analysis to determine whether the market share gains achieved by including freight costs in EEP bonuses would be maintained. After the program is discontinued the exporter is once again at a competitive disadvantage with respect to transportation costs. USDA's Office of the General Counsel determined it is appropriate to consider transportation costs in establishing the EEP bonuses if the inclusion of such costs was necessary to enable U.S. exporters to overcome their geographic disadvantage. Furthermore, given its primary focus on trade policy objectives, the EEP may be considered a temporary program. Because of that fact and the new criteria for operating the EEP, OIG has decided that FAS does not need to conduct a cost-benefit analysis to determine the long-term effects of the application of shipping cost incentives.

-- OIG questioned bonus value calculations and called for written policies and procedures for world price determinations and bonus calculations, documentation of adjustments made to price quotes from agricultural attaches and other sources, and re-evaluation of the incidental costs allowed. FAS has developed written policies and guidelines to calculate bonuses. The guidelines call for documenting any adjustments made to price quotes and re-evaluating incidental costs periodically.

-- OIG cited inadequate record-keeping by some exporters which made it difficult to access information needed to analyze the financial impact EEP participation has on exporters. OIG called for clarifying the language in the "Announcement for Acquiring a CCC Bonus Under the Export Enhancement Program." On December 8, 1989, EEP Announcements were amended to clarify the language of the provisions for audit of records and access to premises to ensure that exporters maintain records needed by USDA to analyze the financial impact created by the exporters' participation in the EEP and allow USDA access to such records as well as records relating to sales made outside the EEP by the exporters.

-- OIG raised concerns about the practice of "bid assistance" and called for steps to ensure program integrity. We agree that bid assistance should be minimized. Communication with buyers should be limited to a discussion of market conditions and generally not touch on specifics of what price a buyer should bid for the commodity to be exported. As I mentioned before, FAS has evaluated its procedures to ensure that every possible precaution is taken to prevent the acceptance of a sales price that is lower than a buyer would have offered in the absence of discussions with FAS personnel.

-- OIG called for improvement in the overall management of dairy cattle exports under the EEP. OIG called into question bonus calculations, cited the need to assist exporters in becoming aware of import restrictions, and asked FAS to determine if performance security requirements should be reduced so that smaller exporters could participate in the program. FAS reviews bonus levels for all commodities daily to ensure that they reflect current market conditions and realistic costs. FAS has documented how it determines bonus levels and periodically re-evaluates incidental costs

allowed in bonus calculations.

FAS provides exporters with information on foreign countries' laws, trade restrictions, and import requirements through its network of agricultural attaches and trade officers in target countries and its commodity specialists and policy staff in Washington, D.C. FAS also had taken steps prior to issuance of the OIG Audit Report to ensure that small exporters are able to participate in EEP. This was done by reducing the amount of the performance security that must be furnished by the exporter, if the exporter agrees to accept payment of the bonus after delivery, rather than shipment, of the commodity.

-- The OIG audit contended that FAS did not verify that exporters had valid sales contracts under the dairy cattle EEP. Beginning on July 29, 1988, CCC required that all exporters supply a copy of the signed sales contract or eligible buyer sales certification statement at the time the offer was made for the export of dairy cattle under the EEP. On December 8, 1989, FAS amended the EEP Announcements to further clarify the definition of Sales Contract by including a description of the minimum sales contract requirements.

-- OIG called for more rigid controls to ensure that bonus payments are made only for commodities specified in agreements. FAS has tightened controls to ensure that bonus payments are made only for the commodities specified in the agreement between the CCC and the exporter. If any discrepancies are found between commodity specifications under the agreement and the export shipping documents, bonus payments are withheld pending resolution of the discrepancy.

-- OIG called for all amendments to be documented. FAS has established procedures to provide the Kansas City Commodity Office with copies of commodity specifications under an agreement. In conjunction with the more rigid tracking to ensure that commodities meet these specifications, CCC also has established procedures to ensure that any amendments to agreements under the EEP are well documented. FAS has developed and implemented a computer-based logging system to document and track amendments for all commodities. This electronic system, together with paper and telephone backup systems, is being used both in Washington and in the Kansas City Commodity Office.

Mr. Chairman, that briefly summarizes some of the action we've taken to strengthen and streamline the Export Enhancement Progra I'd now like to address some specific concerns which have been raised rece ly overpayments for bonuses and public access to EEP activities.

An EEP bonus represents the difference between the landed cost of the U.S. commodity in the targeted country and the landed cost of our competitors'. To arrive at the landed cost, we evaluate various factors, including the higher transportation costs faced by U.S. exporters since their products have to travel greater distances. A buyer in North Africa for example, does not consider the difference between the FOB price at the U.S. Gulf Coast versus the FOB price at Rotterdam. That buyer is only looking at his bottom line--what will that product cost him at his point of entry. Using the landed cost to calculate our bonuses allows U.S. exporters to compete with highly subsidized product from the EC. Without consideration for ocean transportation costs. the EEP program would become non-functional to most world destinations.

On the issue of public access, let me assure the Committee that we at USDA take our responsibility as public servants very seriously. We work hard to ensure that appropriate information about our decisions is disseminated to the widest possible audiences. We do not, however, open our books to either the world buyers participating in the program or the exporters who are bidding competitively against one another for a bonus. To do so , would in our judgment, flag our intentions to other subsidizing exporters and resort in higher bonuses than would otherwise be necessary.

Conclusion

As with any new program, we have learned some of the pitfalls of program operation as we've gone along. But even though we've encountered some problems, exports have been boosted by the EEP program in combination with the depreciation of the dollar and lower loan rates.

Since the program began in 1985, we have awarded close to $2.7 billion worth of EEP bonuses to facilitate over $9.9 billion in export sales. Fifty-six percent of all U.S. wheat and wheat flour exports during 1985-89 were shipped under the Export Enhancement Program. In addition to wheat and barley, commodities exported under the EEP have included flour, semolina, barley malt, sorghum, rice, poultry feed, vegetable oil, frozen poultry, dairy cattle, and eggs. All together 65 countries have been targeted for EEP sales. In 1988, we awarded $1 billion worth of EEP bonuses to help sell almost $3.3 billion worth of U.S. agricultural commodities. Last year, despite drought-reduced supplies, $2.8 billion worth of U.S. agricultural commodities were exported with the aid of $338 million in export bonuses. This fiscal year, as you know, up to $566 million could be made available by the CCC as bonuses under the EEP. Assumptions for the CCC included in the President's budget for fiscal year 1991 provide for up to $900 million in

commodity certificates to be made available as EEP bonus awards.

In the final analysis, the real value of the EEP depends on its contribution to agricultural trade reform under the GATT. The current Uruguay Round of trade liberalizing negotiations will end this year. We shall then review and re-assess the EEP as part of our ongoing strategy for trade reform.

Mr. Chairman, that concludes my testimony. I would be happy to answer any questions.

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